

HOUGHTON-PORTAGE TOWNSHIP
SCHOOL DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	6
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Fiduciary Funds - Statement of Fiduciary Net Assets	17
NOTES TO FINANCIAL STATEMENTS	18
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION	
Budgetary Comparison Schedule - General Fund	35
OTHER SUPPLEMENTAL FINANCIAL INFORMATION	
GENERAL FUND	
Detail Statements of Revenues, Expenditures, and Changes in Fund Balances	37
DEBT SERVICE FUND	
Statements of Revenues, Expenditures, and Changes in Fund Balances	40
NON-MAJOR GOVERNMENTAL FUNDS	
Combining Balance Sheet	41
<u>School Service Fund</u>	
Statements of Revenues, Expenditures, and Changes in Fund Balances	42
<u>Athletic Fund</u>	
Statements of Revenues, Expenditures, and Changes in Fund Balances	43
<u>Community Service Fund</u>	
Statements of Revenues, Expenditures, and Changes in Fund Balances	44

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
OTHER SUPPLEMENTAL FINANCIAL INFORMATION (Continued)	
FIDUCIARY FUNDS	
Trust and Agency Fund - Statement of Changes in Assets and Liabilities	45
Scholarship Fund - Statement of Changes in Assets and Liabilities	46
FEDERAL AWARDS PROGRAMS:	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	48
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	49
Schedule of Expenditures of Federal Awards	51
Notes to the Schedule of Expenditures of Federal Awards	52
Schedule of Findings and Questioned Costs	52
LETTER OF COMMENTS AND RECOMMENDATIONS	54



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INDEPENDENT AUDITOR'S REPORT

Board of Education
Houghton-Portage Township School District
Houghton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of and for the year then ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton-Portage Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2005 on our consideration of Houghton-Portage Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Houghton Portage Township School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Houghton Portage Township School District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 20, 2005

**Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2005**

This section of Houghton-Portage Township Schools annual financial report presents our discussion and analysis of the School Districts financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Financial Highlights

Due to Michigan's continuing financial difficulties, the 2004-05 school year was the third straight year without an increase in the state aide foundation allowance. To complicate matters, enrollment has been declining due to families moving out of the area. The district has been able to offset some of the increased costs for health insurance, pension costs, utilities costs and other cost increases by not replacing retirees when feasible, contracting out some support services, and cooperative purchasing of supplies.

The bright spot is the continued increases in schools of choice enrollments, without which the enrollment decline would have been worse than it has been. Schools of choice enrollments are from students living outside the district choosing to enroll with Houghton-Portage Township Schools. The Board's philosophy is to make every effort to maintain program offerings, so as to continue to attract students from outside the district.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Overview of the Financial Statements - Continued

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, School Food Service, Community Service and Athletic funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General, School Food Service, Community Service and Athletic Funds.

Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2005

Summary of Net Assets

	2005	2004
Assets		
Current and other assets	\$ 2,419,502	\$ 2,567,901
Restricted investments	10,321	11,317
Capital assets - Net of accumulated depreciation	15,590,514	16,038,459
Total Assets	<u><u>\$18,020,337</u></u>	<u><u>\$18,617,677</u></u>
Liabilities		
Current liabilities	\$ 3,483,377	\$ 3,423,665
Long-term liabilities	17,237,688	17,965,498
Total Liabilities	<u><u>20,721,065</u></u>	<u><u>21,389,163</u></u>
Net Assets		
Invested in property and equipment - net of related debt	(3,452,918)	(3,620,750)
Restricted	48,192	55,390
Unrestricted	703,998	793,873
Total net assets	<u><u>(2,700,728)</u></u>	<u><u>(2,771,487)</u></u>
Total Liabilities and Net Assets	<u><u>\$18,020,337</u></u>	<u><u>\$18,617,676</u></u>

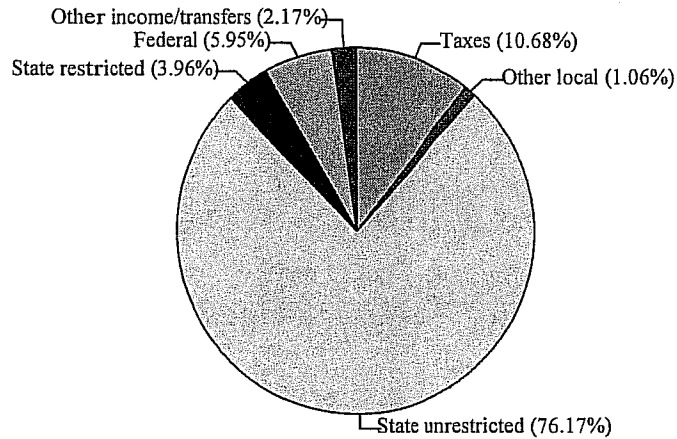
Results of Operations in Governmental Activities

	2005	2004
Program Revenue:		
Charges for services	\$ 439,712	\$ 499,913
Grants and contributions	1,117,378	1,058,121
General Revenue:		
Property taxes	2,290,204	2,163,907
State foundation allowance	7,265,101	7,374,273
Other	233,863	70,393
Total Revenue	<u><u>11,346,258</u></u>	<u><u>11,166,607</u></u>
Functions/Program Expenses		
Instruction	6,646,408	6,514,328
Support services	2,921,385	2,971,346
School service	498,813	451,423
Athletics	316,368	326,005
Community services	75,553	76,757
Interest on long-term debt	802,540	1,618,188
Other debt	14,432	10,270
Total Expenses	<u><u>11,275,499</u></u>	<u><u>11,968,317</u></u>
Change in Net Assets	<u><u>70,759</u></u>	<u><u>(801,710)</u></u>
Net Assets - Beginning	<u><u>(2,771,487)</u></u>	<u><u>(1,969,777)</u></u>
Net Assets - Ending	<u><u>\$ (2,700,728)</u></u>	<u><u>\$ (2,771,487)</u></u>

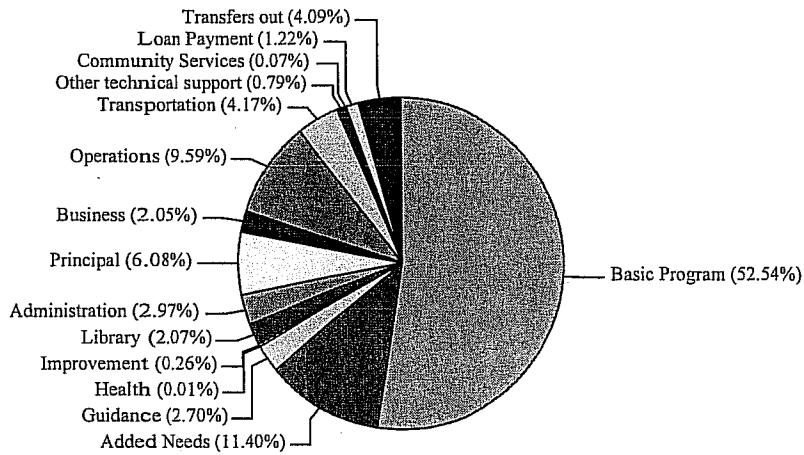
Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2005

The following charts highlight the District's General Fund activities:

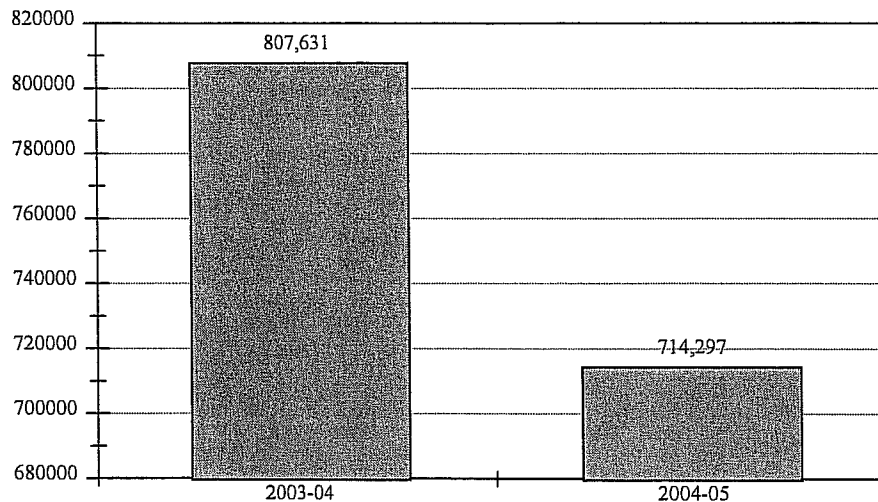
2004-05 Revenues



2004-05 Expenditures



Fund Balance Comparison



Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2005

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 9,537,417	\$ 9,424,771	\$ 112,646
Expenditures/Transfers	\$ 9,630,750	\$ 9,504,798	\$ 125,952
Fund Balance	\$ 714,297	\$ 807,630	\$ (93,333)
Debt Retirement Fund:			
Revenues/Transfers	\$ 1,436,366	\$ 1,436,114	\$ 252
Expenditures/Transfers	\$ 1,443,664	\$ 1,457,340	\$ (13,676)
Fund Balance	\$ 44,867	\$ 52,165	\$ (7,298)
School Service Fund:			
Revenues/Transfers	\$ 517,500	\$ 448,061	\$ 69,439
Expenditures/Transfers	\$ 498,813	\$ 451,423	\$ 47,390
Fund Balance	\$ 36,527	\$ 17,840	\$ 18,687
Athletic Fund:			
Revenues/Transfers	\$ 306,827	\$ 322,849	\$ (16,022)
Expenditures/Transfers	\$ 304,822	\$ 314,459	\$ (9,637)
Fund Balance	\$ 24,158	\$ 22,153	\$ 2,005
Community Service Fund:			
Revenues/Transfers	\$ 70,574	\$ 100,143	\$ (29,569)
Expenditures/Transfers	\$ 69,105	\$ 76,757	\$ (7,652)
Fund Balance	\$ 21,917	\$ 23,386	\$ (1,469)

General Fund - The main increase in revenue is related to the tax revenue, in the amount of \$76,854.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. The reduction in fund equity was the result of borrowing less than anticipated from the School Bond Loan Fund.

Food Service Fund - The Food Service program for the District has not required any contributions from the General Fund in recent years. The price per meal has not increased since 2001-02 school year.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects significant revenues in the form of gate receipts. The revenues and expenditures for this fund don't normally vary much from one year to the next with the exception of capital outlay. This fund is normally very close to break-even since the General Fund transfers only those funds necessary for the Athletic Fund to break-even.

Community Services Fund - The Community Service Fund was established to account for such programs as childcare, latchkey and adult enrichment, programs which benefit the community as a whole.

Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2005

Changes to Budget and Comparison to Actual Results

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2005, the original budget was adopted on June 21, 2004. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances, therefore the District amended it's budget twice during the fiscal year.

Changes between original and final budget

Local	Increase of \$31,756 increase due to increased donations (\$15,500), earnings on investments (\$9,000), and local tax collections.
State	Increase of \$148,134 increase primarily due to actual enrollment being more than budgeted.
Federal	Minimal Change
Instruction	Increase of \$78,258 over original budget. Part-time staffing was increased due to enrollment increase, there was increased participation in the dual-enrollment program, a driver's ed car had to be replaced, and 3 early retirements resulted in unbudgeted contractual obligations.
Supporting	Increase of \$42,433. A bus purchase was cut from the original budget due to lack of funds. With the increased funds from higher enrollment, the board decided to buy the bus.
Community	Minimal Change

Variances between final budget and actual

Local	Minimal Change
State	Minimal Change
Federal	Decrease of \$47,252. Reimbursements for Title I and Title II programs were down due to decreased expenditures in those programs.
Instruction	Minimal Change
Supporting	Decrease of \$122,529. This is a 4% reduction of expenditures spread across many departments. Wages, benefits, purchased services and supplies came in under budget.
Community	Minimal Change

Houghton-Portage Township School District
Management's Discussion and Analysis
June 30, 2005

Capital Assets and Debt Administration

Capital Assets: The districts purchases this year consisted of a new school bus, three copiers, a vending machine and a vehicle. They disposed of three copiers and two vehicles. This years purchases totaled \$107,336 and the disposals totaled \$65,338 resulting in a net increase of \$41,998.

The board is committed to maintaining up-to-date technology. Computers are replaced every four to five years. Approximately \$85,000 is budgeted annually to cover lease payments for technology replacement and upgrades.

The board's philosophy is to pay cash for capital outlay items whenever possible, in order to avoid the additional cost for interest associated with borrowing. The one major exception is for computer purchases. The district replaces computers all at once every 4 or 5 years in order to avoid problems with dissimilar technology components. This would result in too large an expenditure in any one year, so the computers are financed in order to spread the cost over several years' budgets.

The school maintains a fleet of 15 buses, 4 of which are used as spares. In our experience a bus has a useable life of 10 to 12 years. It is a goal of the Board to replace one bus per year in order to maintain a safe fleet.

Additional information on the District's capital assets can be found on page 24 of this report.

Long-term Debt: At the end of the current fiscal year, the Districts total debt was \$18,019,965. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$739,761.

Additional information on the District's long-term debt can be found on page 25 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$6,875 for the 2005-06 school year. This represents an increase of \$175, the first in three years.

Approximately 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Houghton-Portage Township School District.

HOUGHTON-PORTAGE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 111,748
Investments	465,393
Taxes receivable	131,356
Accounts receivable	267,123
Due from student groups	16,704
Due from other governmental units	1,392,318
Prepaid expenses	5,018
Inventories	<u>29,842</u>
TOTAL CURRENT ASSETS	<u>2,419,502</u>

NONCURRENT ASSETS:

Restricted cash	7,961
Restricted investments	2,360
Capital assets	21,283,438
Less: accumulated depreciation	<u>(5,692,924)</u>
TOTAL NONCURRENT ASSETS	<u>15,600,835</u>
TOTAL ASSETS	<u>\$ 18,020,337</u>

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 79,650
Accrued expenses	253,531
Accrued interest	1,023,466
Other current liabilities	2,772
Due to governmental units	30,271
Short-term note payable	1,200,000
Installment loans payable, due within one year	83,900
Bonds payable within one year	795,163
Deferred Revenue	<u>18,895</u>
TOTAL CURRENT LIABILITIES	<u>3,487,648</u>

NONCURRENT LIABILITIES:

Bonds payable, due in more than one year	13,464,903
Installment loans payable, due in more than one year	80,000
Compensated absences	92,514
School bond loan fund payable	<u>3,596,000</u>
TOTAL NONCURRENT LIABILITIES	<u>17,233,417</u>
TOTAL LIABILITIES	<u>20,721,065</u>

NET ASSETS:

Invested in capital assets, net of related debt	(3,452,918)
Restricted for debt service	44,867
Reserved	700
Designated	2,625
Unreserved	<u>703,998</u>
TOTAL NET ASSETS	<u>(2,700,728)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,020,337</u>

The accompanying notes to financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 6,646,408	\$ 24,218	\$ 959,200	\$ (5,662,990)
Support services	2,921,385	25,224	-	(2,896,161)
School service	498,813	270,323	154,548	(73,942)
Athletics	316,368	64,947	3,630	(247,791)
Community services	75,553	70,035	-	(5,518)
Interest on long-term debt	802,540	-	-	(802,540)
Other debt service	14,432	-	-	(14,432)
Total Governmental Activities	<u>\$ 11,275,499</u>	<u>\$ 454,747</u>	<u>\$ 1,117,378</u>	<u>(9,703,374)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operations				1,010,805
Property taxes, levied for debt service				1,279,399
Other taxes				16,441
State school aid - unrestricted				7,265,101
Interest and investment earnings				39,683
Other				133,285
Transfers				27,553
Special item - gain on sale of assets				<u>1,866</u>
Total general revenues, transfers, and special items				<u>9,774,133</u>
Change in Net Assets				70,759
Net Assets - Beginning				<u>(2,771,487)</u>
Net Assets - Ending				<u>\$ (2,700,728)</u>

The accompanying notes to financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and cash equivalents	\$ 73,185	\$ -	\$ 38,563	\$ 111,748
Investments	465,393	-	-	465,393
Taxes receivable	67,086	64,270	-	131,356
Accounts receivable	235,763	-	31,360	267,123
Due from other governmental units	1,392,318	-	-	1,392,318
Due from other funds	51,789	-	22,129	73,918
Due from student groups	16,704	-	-	16,704
Inventory	-	-	29,842	29,842
Prepaid expenses	5,018	-	-	5,018
Restricted cash	-	7,961	-	7,961
Restricted investments	-	2,360	-	2,360
TOTAL ASSETS	<u>\$ 2,307,256</u>	<u>\$ 74,591</u>	<u>\$ 121,894</u>	<u>\$ 2,503,741</u>
LIABILITIES:				
Accounts payable	\$ 69,655	\$ 550	\$ 9,445	\$ 79,650
Accrued expenses	252,244	-	1,287	253,531
Due to other funds	21,894	29,174	22,850	73,918
Due to governmental unit	30,271	-	-	30,271
Short-term notes payable	1,200,000	-	-	1,200,000
Deferred revenue	18,895	-	-	18,895
Other liabilities	-	-	2,772	2,772
TOTAL LIABILITIES	<u>1,592,959</u>	<u>29,724</u>	<u>36,354</u>	<u>1,659,037</u>
FUND BALANCES:				
Reserved	700	44,867	-	45,567
Designated	2,625	-	-	2,625
Unreserved	710,972	-	85,540	796,512
TOTAL FUND BALANCES	<u>714,297</u>	<u>44,867</u>	<u>85,540</u>	<u>844,704</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,307,256</u>	<u>\$ 74,591</u>	<u>\$ 121,894</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,590,514
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(18,112,480)
Accrued interest is not included as a liability in governmental funds	(1,023,466)
Net assets of governmental activities	<u>\$ 2,700,728</u>

The accompanying notes to the financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
Revenues				
Local sources	\$ 1,119,881	\$ 1,307,966	\$ 502,353	\$ 2,930,200
State sources	7,643,216	-	15,843	7,659,059
Federal sources	567,504	-	138,705	706,209
Total revenues	9,330,601	1,307,966	656,901	11,295,468
Expenditures				
Instruction	6,157,823	-	-	6,157,823
Supporting services	2,954,968	-	-	2,954,968
School service	-	-	498,813	498,813
Athletics	-	-	304,822	304,822
Community services	6,448	-	69,105	75,553
Debt Service	-	1,443,664	-	1,443,664
Total expenditures	9,119,239	1,443,664	872,740	11,435,643
Excess (deficiency) of revenue over expenditures	211,362	(135,698)	(215,839)	(140,175)
Other Financing Sources (Uses)				
Operating transfers in (out)	(238,000)	-	238,000	-
Transfers from other districts	183,579	-	-	183,579
Other financing sources	21,371	-	-	21,371
Transfers to other districts	(156,026)	-	-	(156,026)
Loan payments	(117,485)	-	-	(117,485)
School Bond Loan Fund proceeds	-	128,400	-	128,400
Total other financing sources (uses)	(306,561)	128,400	238,000	59,839
Special Items				
Proceeds from sale of capital assets	1,866	-	-	1,866
Net Change in Fund Balance	(93,333)	(7,298)	22,161	(78,470)
Fund Balances - Beginning of year	807,630	52,165	63,379	
Fund Balances - End of Year	\$ 714,297	\$ 44,867	\$ 85,540	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(447,944)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(142,588)
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds	(128,400)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	868,161
Change in net assets of governmental activities	\$ 70,759

The accompanying notes to financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	<u>202,892</u>
TOTAL ASSETS	<u><u>202,892</u></u>
 LIABILITIES	
Due to student groups	\$ 60,038
Scholarship funds	<u>142,854</u>
TOTAL LIABILITIES	<u><u>\$ 202,892</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Houghton-Portage Township School District conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the more significant policies:

REPORTING ENTITY

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Excluded from the reporting entity:

Houghton-Portage Township Schools Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation and/or maintenance of educational programs which significantly contribute to the education and personal growth of Houghton-Portage Township School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported as general revenue.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, & FINANCIAL STATEMENT PRESENTATION

District-wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue are (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, Athletic Activities, and Community Service Activities.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The School District reports the following fiduciary funds:

Trust and Agency Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Scholarship Fund - The Scholarship Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

Property taxes receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied by the City of Houghton and Portage Township for the Summer on July 1 and become due on July 31, and for the Winter they are levied on December 1 and become due on February 14.

The 2004 non-homestead and homestead taxable valuation of the District amounted to \$54,949,159 and \$72,513,305, respectively. Ad valorem taxes of \$1,010,805 were levied for operating purposes (17.9964 mills) based on non-homestead taxable valuation and \$1,279,399 for debt retirement (8.89 mills) based on homestead and non-homestead taxable valuation. These amounts are recorded as revenue on the District's records in and for the fiscal year ending June 30, 2005.

Inventory - General Fund utilizes the purchase method of recording inventories of materials and supplies. Inventory in the School District's Special Revenue Fund consists of food, a la carte items, supplies, and USDA Commodities totaling \$29,842. The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets - Fixed assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions:	20-50 years
Buses and other vehicles:	5-10 years
Furniture and other equipment:	5-10 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consist of unpaid, accumulated annual and sick leave balances. As of June 30, 2005, accrued unpaid vacation pay totaled \$92,514. Accrued vacation time is payable upon termination of employment or retirement. Accrued sick leave is not paid to employees upon termination of employment or retirement, thus there is no vested liability for unused sick leave.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

BUDGETARY DATA

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to July 1, the School District Superintendent submits to the Board of Education a proposed budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted at a regular meeting by Board of Education approval.
4. Any revisions to the budgeted amounts must be approved by the Board of Education.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Budgeted amounts presented in the financial statements are as originally adopted, or as amended by the Board of Education.
7. Budget appropriations lapse at the end of the fiscal year.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - BUDGETING AND ACCOUNTING

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Description	Total Appropriations	Amount of Expenditures	Budget Variances
General Fund			
Technical Skills Training	\$218,250	\$219,153	(\$903)

NOTE C - CASH AND INVESTMENTS

CASH DEPOSITS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 587,462	\$ 202,892	\$ 790,354

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE C - CASH AND INVESTMENTS (Continued)

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$	321,381
Investments		467,753
Petty cash and cash on hand		1,220
Total	\$	<u>790,354</u>

At June 30, 2005, the book value of the School District's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$321,381 with a corresponding bank balance of \$632,876. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Of the bank balance, approximately \$263,163, representing approximately 42% of the District's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$263,163 was insured and \$369,713 was neither insured or collateralized.

INVESTMENTS

The investment of the School District's funds is governed by state statutes. In general, state statutes provide that the School District is authorized to invest its funds in certificates of deposit, savings accounts and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest are fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

At June 30, 2005, the District's investments consisted of mutual funds which are not categorized because they are not evidenced by securities that exist in physical or book entry form. The District had \$467,753 in mutual funds with Michigan School District Liquid Asset Fund Plus.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/04	Additions	Subtractions and Adjustments	Balance 06/30/05
Land	\$ 1,323,619	\$ 0	\$ 0	\$ 1,323,619
Fixed assets being depreciated:				
Building and additions	17,842,816	0	0	17,842,816
Improvements other than building	111,413	0	0	111,413
Equipment and furniture	818,906	34,770	38,427	815,249
Vehicles other than buses	191,730	9,995	26,911	174,814
School buses	647,761	57,160	0	704,921
Other assets	305,164	5,441	0	310,605
Subtotal	<u>19,917,790</u>	<u>107,366</u>	<u>65,338</u>	<u>19,959,818</u>
Accumulated depreciation:				
Building and additions	3,991,588	358,259	0	4,349,847
Improvements other than building	41,544	5,571	0	47,115
Equipment and furniture	372,640	110,569	34,771	448,438
Vehicles other than buses	141,805	13,310	26,912	128,203
School buses	473,455	49,990	0	523,445
Other assets	181,919	13,956	0	195,875
Subtotal	<u>5,202,951</u>	<u>551,655</u>	<u>61,683</u>	<u>5,692,923</u>
Net capital assets being depreciated	<u>14,714,839</u>	<u>(444,289)</u>	<u>3,655</u>	<u>14,266,895</u>
Net capital assets	<u>\$ 16,038,458</u>	<u>\$ (444,289)</u>	<u>\$ 3,655</u>	<u>\$ 15,590,514</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Athletic	\$ 11,546
Instruction	469,981
Operations	18,346
Transportation	51,782
Total governmental activities	<u>\$ 551,655</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2005 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 51,789	General	\$ 21,894
School Service	235	School Service	22,615
Athletic	10,022	Athletic	0
Community Service	11,872	Community Service	235
Debt Retirement	0	Debt Retirement	29,174
TOTAL	<u>\$ 73,918</u>	TOTAL	<u>\$ 73,918</u>

NOTE F - LONG TERM DEBT

Bonds Payable 1991 Issue

On August 29, 1991, the School District issued \$435,180 of unlimited tax general obligation bonds to advance refund \$435,077 of School Bond Loan Fund loans. The refunded loans were accruing interest at 6.0% to 7.25% per annum and would have been payable starting in 2018. As a result of this transaction, the \$435,077 of debt was defeased in substance. The new debt is included in the General Long-Term Debt Account Group.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 4.6% to 7.1% per annum. Interest payments started on May 15, 1992, and are payable semiannually on May 15, and November 15 as indicated. The bonds are to be both term and serial.

Bonds maturing on or after May 15, 2002, shall be subject to redemption prior to maturity at the option of the School Board in such order as the School Board may determine and by lot within any maturity, on any May 15 or November 15 occurring on or after May 15, 2001, at par and accrued interest to the date fixed for redemption, at the redemption prices set forth in the following table:

<u>Redemption Period</u>	<u>Redemption Price</u>
May 15, 2001 to May 14, 2002	102%
May 15, 2002 to May 14, 2003	101%
May 15, 2003 and Thereafter	100%

<u>1991 ISSUE</u>			
<u>Payable School Year</u>	<u>May 15 Interest</u>	<u>May 15 Principal</u>	<u>Total</u>
2005-2006	\$ 54,108	\$ 30,892	\$ 85,000
2006-2007	49,747	25,252	74,999
2007-2008	82,301	37,699	120,000
2008-2009	85,124	34,876	120,000
2009-2010	123,921	46,079	170,000
2010-2011	41,097	13,903	55,000
TOTAL	<u>\$ 436,298</u>	<u>\$ 188,701</u>	<u>\$ 624,999</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG TERM DEBT (Continued)

1998 Advance Refunding

On March 1, 1998, the District issued \$8,815,000 of general obligation - unlimited tax bonds to advance refund \$8,250,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to pay certain costs of issuance relating to the partial refunding of the 1996 Building and Site Bonds dated June 6, 1996 and to establish an "Escrow Fund." The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principle and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2004. As a result, the refunded bonds are considered to be defeased.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 3.80% to 5.00% per annum. Interest payments started on May 1, 1998, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2009 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2008, at par and accrued interest to the date fixed for redemption.

The Bonds due May 1, 2021 and May 1, 2026, are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date, as set forth below:

<u>Term Bonds due May 1, 2021</u>	
<u>Redemption Dates</u>	<u>Principal Amounts</u>
May 1, 2019	\$490,000
May 1, 2020	\$485,000
May 1, 2021 (maturity)	\$480,000

<u>Term Bonds due May 1, 2026</u>	
<u>Redemption Dates</u>	<u>Principal Amounts</u>
May 1, 2022	\$480,000
May 1, 2023	\$475,000
May 1, 2024	\$470,000
May 1, 2025	\$470,000
May 1, 2025	\$465,000

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG TERM DEBT (Continued)

1998 ISSUE

Payable School Year	November 1 Interest	May 1 Interest	May 1 Principal	Total
2005-2006	\$ 203,789	\$ 203,789	\$ 280,000	\$ 687,578
2006-2007	197,699	197,699	280,000	675,398
2007-2008	191,539	191,539	280,000	663,078
2008-2009	185,239	185,239	280,000	650,478
2009-2010	178,939	178,939	280,000	637,878
2010-2011	172,499	172,499	305,000	649,998
2011-2012	165,331	165,331	300,000	630,662
2012-2013	158,131	158,131	300,000	616,262
2013-2018	653,738	653,738	2,230,000	3,537,476
2018-2023	355,500	355,500	2,410,000	3,121,000
2023-2026	70,125	70,125	1,405,000	1,545,250
TOTAL	<u>\$ 2,532,529</u>	<u>\$ 2,532,529</u>	<u>\$ 8,350,000</u>	<u>\$ 13,415,058</u>

2001 Energy Conservation Improvement Bond

On June 25, 2001, the District issued \$310,000 of Energy Conservation Improvement Bonds. The proceeds of the bonds were used for roof repairs and other improvements that would conserve energy.

The bond issue matures as indicated below with interest not to exceed 5% per annum. Interest payments started on November 1, 2001, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

Payable School Year	November 1 Interest	May 1 Interest	May 1 Principal	Total
2005-2006	\$ 4,772	\$ 4,772	\$ 30,000	\$ 39,544
2006-2007	4,127	4,127	30,000	38,254
2007-2008	3,468	3,468	35,000	41,936
2008-2009	2,680	2,680	35,000	40,360
2009-2010	1,857	1,857	35,000	38,714
2010-2011	1,000	1,000	40,000	42,000
TOTAL	<u>\$ 17,904</u>	<u>\$ 17,904</u>	<u>\$ 205,000</u>	<u>\$ 240,808</u>

2002 Advance Refunding

On January 21, 2002, the District issued \$6,715,000 of general obligation -unlimited tax bonds to advance refund \$6,485,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay certain costs of issuance relating to the refunding of the 1992 Refunding Bonds dated January 1, 1993 and to establish an "Escrow Fund." The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principle and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2014. As a result, the refunded bonds are considered to be defeased.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG TERM DEBT (Continued)

This advance refunding was undertaken to reduce total debt service payments over the next 14 years by \$610,191 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$482,478.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.85% to 4.50% per annum. Interest payments started on November 1, 2002, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2013 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2012, at par and accrued interest to the date fixed for redemption.

Payable School Year	November 1 Interest	May 1 Interest	May 1 Principal	Total
2005-2006	\$ 110,787	\$ 110,787	\$ 450,000.00	\$ 671,574
2006-2007	103,587	103,587	485,000	692,174
2007-2008	94,979	94,979	485,000	674,958
2008-2009	85,885	85,885	515,000	686,770
2009-2010	75,714	75,714	515,000	666,428
2010-2011	65,285	65,285	640,000	770,570
2011-2012	52,005	52,005	740,000	844,010
2012-2013	36,280	36,280	790,000	862,560
2013-2014	18,900	18,900	840,000	877,800
TOTAL	<u>\$ 643,422</u>	<u>\$ 643,422</u>	<u>\$ 5,460,000</u>	<u>\$ 6,746,844</u>

Durant Bond

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$88,227 of school improvement bonds for the purpose of purchasing various supplies and equipment for technological improvements to the District.

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG TERM DEBT (Continued)

The bond is not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding this bond. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bond is the obligation of the School District, not the State.

DURANT BOND ISSUE

<u>Payable School Year</u>	<u>May 15 Interest</u>	<u>May 15 Principal</u>	<u>Total</u>
2005-2006	\$ 1,925	\$ 4,271	\$ 6,196
2006-2007	1,722	4,472	6,194
2007-2008	1,509	4,687	6,196
2008-2009	1,286	4,910	6,196
2009-2010	1,052	5,144	6,196
2010-2011	807	5,389	6,196
2011-2012	7,658	21,579	29,237
2012-2013	282	5,912	6,194
TOTAL	<u>\$ 16,241</u>	<u>\$ 56,364</u>	<u>\$ 72,605</u>

School Bond Loan Fund

During the year ended June 30, 2005, the School District borrowed from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on the above bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can lend the School District funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. During the year ended June 30, 2005 the School District borrowed \$200,000 from the School Bond Loan Fund to cover debt payments on the 1991, 1992, and 1998 bond issues. At June 30, 2005, the balance due to the School Bond Loan Fund was \$4,504,634 including accrued interest of \$908,634.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1992, 1996, 1998 and 2002 issues. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the School Bond Loan Fund is established by the state at the time of borrowing and remains fixed for that specific borrowing until repayment. The rate at June 30, 2005 was 3.125%.

Other Long-Term Debt

The School District has loans payable which are detailed below.

SCHEDULE OF INSTALLMENT NOTES PAYABLE - June 30, 2005

<u>Purpose of Note</u>	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/05 Balance</u>
Copiers	10/20/00	<u>\$ 34,387</u>	10/15/05	5.95%	<u>\$ 3,900</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG-TERM DEBT (Continued)

As of June 30, 2005, the aggregate maturities of loans payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	<u>\$ 3,900</u>	<u>\$ 88</u>	<u>\$ 3,988</u>

<u>Purpose of Note</u>	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/05 Balance</u>
Computer Equipment	06/30/03	<u>\$ 320,000</u>	06/21/07	3.10%	<u>\$ 160,000</u>

As of June 30, 2005, the aggregate maturities of loans payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	\$ 80,000	\$ 4,960	\$ 84,960
2006-2007	80,000	2,480	82,480
	<u>\$ 160,000</u>	<u>\$ 7,440</u>	<u>\$ 167,440</u>

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2005:

	<u>Balance June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Bonds	\$ 15,040,742	\$ -	\$ 780,676	\$ 14,260,066	\$ 795,163
Notes Payable	251,384	-	87,463	163,899	83,900
School Bond Loan	3,467,600	128,400	-	3,596,000	-
	<u>18,759,726</u>	<u>128,400</u>	<u>868,161</u>	<u>18,019,965</u>	<u>\$ 879,063</u>
SBLF Interest	781,976	126,658	-	908,634	
Accrued Interest	899,482	123,984	-	1,023,466	
Accrued Benefits	73,910	18,604	-	92,514	
TOTAL	<u>\$ 20,515,094</u>	<u>\$ 397,646</u>	<u>\$ 868,161</u>	<u>\$ 20,044,579</u>	

As of June 30, 2005, the aggregate maturities of long-term debt for the next ten years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	\$ 879,063	\$ 667,343	1,546,406
2006-2007	904,724	671,222	1,575,946
2007-2008	842,386	634,018	1,476,404
2008-2009	869,786	637,993	1,507,779
2009-2010	881,223	519,472	1,400,695
2010-2011	1,004,292	914,436	1,918,728
2011-2012	1,061,579	389,104	1,450,683
2012-2013	1,095,912	1,361,517	2,457,429
2013-2018	3,070,000	1,997,844	5,067,844
2018-2023	2,410,000	140,250	2,550,250
2023-2026	5,001,000	922,226	5,923,226
	<u>\$ 18,019,965</u>	<u>\$ 8,855,425</u>	<u>\$ 26,875,390</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE G - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or after attaining age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 12.99% of covered compensation through September 30, 2004 and 14.87% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$912,968 which consisted of \$776,054 from the District and \$136,914 from employees electing the MIP option. These represent approximately 14.502% and 2.558% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$5,351,473. The District's total payroll was approximately \$5,518,705.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE G - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$38.7 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 80.36%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2004 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2004 annual report.

The State of Michigan is responsible for the payment of retirement benefits.

NOTE H - FUND BALANCE - DESIGNATED

A Designated Fund Balance has been established to account for those resources currently available for use, but expendable for specified purposes. The School Board has designated \$2,625 for the purpose of funding a catastrophic illness program for all employees.

NOTE I - FUND BALANCE - RESERVED

The Reserved Fund Balance, in the General Fund, represents contributions toward the purchase of a piano for the Alumni Auditorium in the amount of \$700.

NOTE J - STATE FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 17.9964 mills for non-homestead property taxes. The State revenue is recognized during the foundation period (currently the fiscal year).

2004-05 Foundation		\$	6,700.00
Less Local Support:			
Non-Homestead Tax Value	54,949,159		
Multiplied by mills	17.9964		
Total Local Support	<u>989,085</u>		
Divided by General Education K-12 membership	<u>1,234.05</u>		
Calculated Local Support			<u>(801.50)</u>
2004-05 Foundation Grant Allowance Per Pupil		\$	<u><u>5,898.51</u></u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE L - CONTINGENT LIABILITIES

Risk Pool

Houghton-Portage Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Houghton-Portage Township School District joined together with other school districts currently operating a common risk management and insurance program. Houghton-Portage Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Houghton-Portage Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2005, which can be obtained through the school district.

NOTE M - RECLASSIFICATION

Certain items in the June 2004 financial statements have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Local sources	\$ 1,091,849	\$ 1,123,605	\$ 1,119,881	\$ (3,724)
State sources	7,502,650	7,650,784	7,643,216	(7,568)
Federal sources	615,744	614,756	567,504	(47,252)
TOTAL REVENUE	9,210,243	9,389,145	9,330,601	(58,544)
EXPENDITURES:				
Instruction	6,097,916	6,176,174	6,157,823	18,351
Supporting services	3,035,064	3,077,497	2,954,968	122,529
Community services	9,306	9,306	6,448	2,858
TOTAL EXPENDITURES	9,142,286	9,262,977	9,119,239	143,738
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	67,957	126,168	211,362	85,194
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	135,152	182,000	183,579	1,579
Other financing sources	-	21,371	21,371	-
Operating transfers out	(238,000)	(238,000)	(238,000)	-
Other outgoing transfers	(140,000)	(158,000)	(156,026)	1,974
Principle and interest payments	(117,488)	(117,488)	(117,485)	3
Total other financing sources (uses)	(360,336)	(310,117)	(306,561)	3,556
SPECIAL ITEMS				
Proceeds from sale of capital assets	-	(1,850)	1,866	3,716
NET CHANGE IN FUND BALANCE	(292,379)	(185,799)	(93,333)	92,466
FUND BALANCE - BEGINNING OF YEAR	807,630	807,630	807,630	-
FUND BALANCE - END OF YEAR	\$ 515,251	\$ 621,831	\$ 714,297	\$ 16,648

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes:		
Current taxes	\$ 1,010,805	\$ 938,220
Other taxes	2,137	-
Penalties & interest on delinquent taxes	<u>5,709</u>	<u>3,577</u>
Total taxes	<u>1,018,651</u>	<u>941,797</u>
Other local sources:		
Investment revenue	22,833	11,826
Tuition	24,218	26,620
Rentals	25,224	26,466
Contributions	13,581	12,786
Miscellaneous	<u>15,374</u>	<u>8,721</u>
Total other local sources	<u>101,230</u>	<u>86,419</u>
Total local sources	<u>1,119,881</u>	<u>1,028,216</u>
State sources:		
Unrestricted grants:		
State aid	<u>7,265,101</u>	<u>7,374,273</u>
Restricted grants:		
Grants	70,744	67,988
At-risk	156,344	146,099
Special education	<u>151,027</u>	<u>128,880</u>
Total restricted grants	<u>378,115</u>	<u>342,967</u>
Total state sources	<u>7,643,216</u>	<u>7,717,240</u>
Federal sources:		
Title I	226,551	248,507
Title V	3,007	4,198
Class size reduction	112,946	62,916
Even start	<u>225,000</u>	<u>225,000</u>
Total federal sources	<u>567,504</u>	<u>540,621</u>
TOTAL REVENUES	<u>9,330,601</u>	<u>9,286,077</u>
EXPENDITURES:		
Instruction:		
Basic program:		
Elementary School	1,969,366	1,898,524
Middle School	1,127,922	1,119,329
High School	<u>1,962,612</u>	<u>1,873,994</u>
Total basic program	<u>5,059,900</u>	<u>4,891,847</u>
Added needs:		
Special education - Elementary School	120,145	113,533
Special education - Middle School	112,545	110,740
Special education - High School	267,540	252,734
Compensatory education	220,037	242,688
At-risk	158,503	211,788

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2005

Technical skills training	219,153	228,467
Total added needs	<u>1,097,923</u>	<u>1,159,950</u>
Total instruction	<u>6,157,823</u>	<u>6,051,797</u>
Supporting services:		
Pupil:		
Guidance	259,786	173,633
Health	<u>606</u>	<u>988</u>
Total pupil	<u>260,392</u>	<u>174,621</u>
Instructional staff:		
Improvement of instruction	24,890	13,434
Library	<u>199,461</u>	<u>194,030</u>
Total instructional staff	<u>224,351</u>	<u>207,464</u>
General administration:		
Board of education	102,564	141,704
Executive administration	<u>183,195</u>	<u>184,126</u>
Total general administration	<u>285,759</u>	<u>325,830</u>
School administration:		
Office of principal - Elementary School	212,141	245,746
Office of principal - Middle School	87,629	149,099
Office of principal - High School	<u>285,756</u>	<u>282,616</u>
Total school administration	<u>585,526</u>	<u>677,461</u>
Business-fiscal services	<u>197,698</u>	<u>195,509</u>
Operation & maintenance	<u>923,341</u>	<u>934,200</u>
Pupil transportation	<u>401,686</u>	<u>381,018</u>
Other technical support	<u>76,215</u>	<u>72,525</u>
Community services	<u>6,448</u>	<u>6,933</u>
Total supporting services	<u>2,961,416</u>	<u>2,975,561</u>
TOTAL EXPENDITURES	<u>9,119,239</u>	<u>9,027,358</u>
EXCESS OF REVENUES OVER EXPENDITURES	211,362	258,719
OTHER FINANCING SOURCES (USES):		
Incoming transfers - other schools	183,579	133,983
Other financing sources	21,371	-
Operating transfer out	(238,000)	(232,931)
Sale of fixed assets	1,866	4,710
Other outgoing transfers	(156,026)	(132,399)

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2005

Loan payments	<u>(117.485)</u>	<u>(112.106)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(304.695)</u>	<u>(338.743)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(93,333)	(80,024)
FUND BALANCE, BEGINNING OF YEAR	<u>807.630</u>	<u>887.655</u>
FUND BALANCE, END OF YEAR	<u>\$ 714.297</u>	<u>\$ 807.630</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
DEBT SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes:		
Current taxes	\$ 1,279,399	\$ 1,219,949
Other taxes	6,427	5,678
Penalties & interest on delinquent taxes	<u>3,496</u>	<u>2,941</u>
Total taxes	<u>1,289,322</u>	<u>1,228,568</u>
Other:		
Miscellaneous	<u>18,644</u>	<u>7,546</u>
TOTAL REVENUES	<u>1,307,966</u>	<u>1,236,114</u>
EXPENDITURES:		
Interest on bonds	678,556	718,706
Redemption of bond principle	750,676	728,364
Tax collection fees	5,100	5,226
Other expense	<u>9,332</u>	<u>5,044</u>
TOTAL EXPENDITURES	<u>1,443,664</u>	<u>1,457,340</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(135,698)	(221,226)
OTHER FINANCING SOURCES (USES)		
School Bond Loan Fund proceeds	<u>128,400</u>	<u>200,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>128,400</u>	<u>200,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(7,298)</u>	<u>(21,226)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>52,165</u>	<u>73,391</u>
FUND BALANCE, END OF YEAR	<u>\$ 44,867</u>	<u>\$ 52,165</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2005

				Totals	
	School Service	Athletic	Community Services	Memorandum Only 2005	2004
ASSETS AND OTHER DEBITS					
Cash	\$ 10,128	\$ 14,962	\$ 13,473	\$ 38,563	\$ 52,774
Receivables	30,815	140	405	31,360	5,280
Due from Other Funds	235	10,022	11,872	22,129	17,561
Inventory	29,842	-	-	29,842	23,308
TOTAL ASSETS	\$ 71,020	\$ 25,124	\$ 25,750	\$ 121,894	\$ 98,923
LIABILITIES					
Accounts payable	\$ 8,430	\$ 966	\$ 49	\$ 9,445	\$ 3,851
Accrued expenses	676	-	611	1,287	14,735
Due to other funds	22,615	-	235	22,850	15,322
Deferred revenues	-	-	-	-	-
Other liabilities	2,772	-	-	2,772	1,636
TOTAL LIABILITIES	34,493	966	895	36,354	35,544
FUND EQUITY:					
Fund balance - unreserved	36,527	24,158	24,855	85,540	63,379
TOTAL LIABILITIES AND FUND EQUITY	\$ 71,020	\$ 25,124	\$ 25,750	\$ 121,894	\$ 98,923

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
SCHOOL SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Adult lunches	\$ 8,397	\$ 7,221
A-La-Carte	101,042	113,899
Special milk	2,601	2,490
Breakfast	14,368	17,600
Student lunches	2,573	3,894
School store revenue	5,050	7,075
Vending machines	136,292	123,750
Earnings on investments	429	438
Miscellaneous	<u>92,200</u>	<u>22,356</u>
Total local sources	<u>362,952</u>	<u>298,723</u>
State sources	<u>15,843</u>	<u>14,488</u>
Federal sources:		
School lunch program	110,187	116,036
USDA entitlements	21,943	14,722
USDA bonus entitlements	<u>6,575</u>	<u>4,091</u>
Total federal sources	<u>138,705</u>	<u>134,849</u>
TOTAL REVENUES	<u>517,500</u>	<u>448,060</u>
EXPENDITURES:		
Labor	126,306	120,740
Total employee benefits	76,136	64,586
Supplies, materials, and other	<u>296,371</u>	<u>266,097</u>
TOTAL EXPENDITURES	<u>498,813</u>	<u>451,423</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,687	(3,363)
FUND BALANCE, BEGINNING OF YEAR	<u>17,840</u>	<u>21,203</u>
FUND BALANCE, END OF YEAR	<u>\$ 36,527</u>	<u>\$ 17,840</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
ATHLETIC FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Athletics	\$ 2,465	\$ 9,136
Football	6,775	5,169
Girls basketball	7,833	7,731
Boys basketball	7,088	8,504
Hockey	11,672	19,138
Swim team	5,276	6,218
Ski Team	8,452	885
Track	3,064	2,822
Golf	402	1,250
Cross Country	180	150
Volleyball	1,389	1,827
Cheerleaders	-	373
Pop fund	<u>14,231</u>	<u>26,715</u>
Total local sources	<u>68,827</u>	<u>89,918</u>
EXPENDITURES:		
Athletics	61,682	53,823
Cross country	5,153	4,686
Football	38,211	37,826
Girls basketball	38,007	35,423
Boys basketball	33,946	39,098
Hockey	36,159	39,493
Ski team	14,251	4,912
Swim team	12,737	12,788
Track	27,857	32,126
Golf	3,658	5,023
Cheerleaders	1,350	3,188
Volleyball	19,238	18,813
Pop fund	<u>12,573</u>	<u>27,260</u>
TOTAL EXPENDITURES	<u>304,822</u>	<u>314,459</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(235,995)	(224,541)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>238,000</u>	<u>232,931</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	2,005	8,390
FUND BALANCE, BEGINNING OF YEAR	<u>22,153</u>	<u>13,763</u>
FUND BALANCE, END OF YEAR	<u>\$ 24,158</u>	<u>\$ 22,153</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
COMMUNITY SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
KGTN child care	\$ 41,903	\$ 34,076
Swim lessons	1,190	1,930
Latchkey	1,453	17,964
Basketball camp	2,673	2,656
GED	3,540	5,175
Summer kids camp	19,276	38,342
Golf	<u>539</u>	<u>-</u>
Total local sources	<u>70,574</u>	<u>100,143</u>
EXPENDITURES:		
KGTN child care	42,960	28,775
Swim lessons	2,103	2,096
Latchkey	590	15,986
Adult enrichment	453	-
Basketball camp	2,672	2,674
GED	5,377	5,756
Summer kids camp	<u>14,950</u>	<u>21,470</u>
TOTAL EXPENDITURES	<u>69,105</u>	<u>76,757</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,469	23,386
FUND BALANCE, BEGINNING OF YEAR	<u>23,386</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 21,917</u>	<u>\$ 23,386</u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
TRUST AND AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
June 30, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash - Secondary	\$ 68,893	\$ 91,101	\$ 112,801	\$ 47,193
Cash - Elementary	14,406	0	2,396	12,010
CD - Class of 1997	818	17	0	835
TOTAL ASSETS	\$ 84,117	\$ 91,118	\$ 115,197	\$ 60,038
LIABILITIES				
Accounts Payable	\$ 1,508	\$ 72,138	\$ 73,574	\$ 72
Due to General Fund	18,720	89,505	91,521	16,704
Due to organization & class funds:				
Amygdaloid	1,248	3,813	4,943	118
Class of 2003	3,225	0	0	3,225
Class of 2004	3,818	0	25	3,793
Class of 2005	3,155	10,873	12,325	1,703
Class of 2006	(490)	9,094	9,122	(518)
Class of 2007	250	7	36	221
Class of 2009	0	322	130	192
Class of 1997	818	17	0	835
Class of 2001	250	0	0	250
Class of 2002	305	0	0	305
Elementary Fund	14,406	0	2,396	12,010
Spanish Club	26	0	0	26
General Fund	2,284	265	377	2,172
M.S. Senate	402	1,692	1,369	725
Key Club	145	1,490	1,621	14
Library	2,171	391	128	2,434
Music Club	28	18,953	19,343	(362)
National Honor Society	229	128	236	121
Print Shop	25,265	10,607	24,655	11,217
SADD	487	0	135	352
Student Council	167	590	376	381
Thespian Society	(1,357)	2,064	4,389	(3,682)
Middle School	2,994	3,043	1,501	4,536
H.S. Newspaper	29	0	0	29
Builders Club	36	81	81	36
M.S. Store	(1,640)	460	580	(1,760)
M.S. Memory Book	103	3,084	2,534	653
Book Fair	1,434	1,390	1,390	1,434
Duluth Trip	546	201	0	747
Ecology Trip	2,967	0	0	2,967
Parent Network	100	0	0	100
Great America	413	7,663	8,473	(397)
Model U.N. Club	0	0	690	(690)
Meemic	75	0	0	75
Total due to organization and class funds	63,889	76,228	96,855	43,262
TOTAL LIABILITIES	\$ 84,117	\$ 237,871	\$ 261,950	\$ 60,038

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS
SCHOLARSHIP FUND
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
June 30, 2005

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
ASSETS				
Cash	\$ 102,500	\$ 42,854	\$ 2,500	\$ 142,854
TOTAL ASSETS	<u>\$ 102,500</u>	<u>\$ 42,854</u>	<u>\$ 2,500</u>	<u>\$ 142,854</u>
LIABILITIES				
Due to Scholarships	\$ 102,500	\$ 40,354	\$ 0	\$ 142,854
TOTAL LIABILITIES	<u>\$ 102,500</u>	<u>\$ 40,354</u>	<u>\$ 0</u>	<u>\$ 142,854</u>

FEDERAL AWARDS PROGRAMS



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Houghton-Portage Township School District
Houghton, Michigan

We have audited the financial statements of Houghton-Portage Township School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Houghton-Portage Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Houghton-Portage Township School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

September 20, 2005

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Houghton-Portage Township School District
Houghton, Michigan

Compliance

We have audited the compliance of Houghton-Portage Township School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Houghton-Portage Township School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Houghton-Portage Township School District's management. Our responsibility is to express an opinion on Houghton-Portage Township School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houghton-Portage Township School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Houghton-Portage Township School District's compliance with those requirements.

In our opinion, Houghton-Portage Township School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Houghton-Portage Township School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Houghton-Portage Township School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and passthrough entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 20, 2005

HOUGHTON-PORTAGE TOWNSHIP SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2005

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	Accrued Revenue July 1, 2004	Current Year Cash Receipts	Current Year Expenditures	Accrued Revenue June 30, 2005
U.S. Department of Education:						
Passed Through Michigan Department of Education						
Title I Part A Grant 041530-0304	84.010	\$ 215,014	\$ 88,893	\$ 115,663	\$ 26,770	\$ 0
Title I Part A Grant 041530-0405	84.010	28,403	0	28,403	28,403	0
Title I Part A Grant 051530-0405	84.010	215,014	0	65,725	171,378	105,654
		458,431	88,893	209,791	226,551	105,654
Even Start 040390-B04128CES	84.213	225,000	78,931	78,931	0	0
Even Start 050390-C0525CES	84.213	225,000	0	137,253	225,000	87,747
		450,000	78,931	216,184	225,000	87,747
Title V LEA Allocation 040250-0304	84.298	4,198	4,198	4,198	0	0
Title V LEA Allocation 050250-0405	84.298	3,007	0	0	3,007	3,007
		7,205	4,198	4,198	3,007	3,007
Title II Part D Grant 044290-0304	84.318	5,896	4,416	5,896	1,480	0
Title II Part D Grant 054290-0405	84.318	5,522	0	5,082	5,179	97
		11,418	4,416	10,978	6,659	97
Title II Part A Grant 030520-0203	84.367	58,500	21,725	21,725	0	0
Title II Part A Grant 040520-0405	84.367	71,337	0	32,150	71,337	39,187
Title II Part A Grant 050520-0405	84.367	70,014	0	34,950	34,950	0
		199,851	21,725	88,825	106,287	39,187
		1,126,905	198,163	529,976	567,504	235,692
Total U.S. Department of Education						
U.S. Department of Agriculture:						
Passed Through Michigan Department of Education						
National School Lunch Section 4 - All Lunches 041950	10.555	2,764	0	2,764	2,764	0
National School Lunch Section 4 - All Lunches 051960	10.555	20,266	0	20,266	20,266	0
National School Lunch Section 11 - Free & Reduced 041960	10.555	8,941	0	8,941	8,941	0
National School Lunch Section 11 - Free & Reduced 051960	10.555	65,921	0	62,177	65,921	3,744
National School Lunch Snacks 041980	10.555	102	0	102	102	0
National School Lunch Snacks 051980	10.555	1,170	0	997	1,170	173
		99,164	0	95,247	99,164	3,917
National School Lunch Breakfast 041970	10.553	767	0	767	767	0
National School Lunch Breakfast 051970	10.553	10,256	0	9,677	10,256	579
		11,023	0	10,444	11,023	579
Food Distribution - Entitlement Commodities	10.550	21,943	0	21,943	21,943	0
Food Distribution - Bonus Commodities	10.550	6,575	0	6,575	6,575	0
		28,518	0	28,518	28,518	0
		138,705	0	134,209	138,705	4,496
		1,265,610	198,163	664,185	706,209	240,188
Total U.S. Department of Agriculture						
TOTALS						

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - June 30, 2005
NOTE A - OVERSIGHT AGENCY

The U. S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the school's federal financial assistance.

NOTE B - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C - FINAL COST REPORT - FORM DS4044

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year grants were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with the prior year audited figures.

NOTE D - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 52 of these financial statements is \$706,209.

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile to the Schedule of Expenditures of Federal Awards as follows:

Total current payments per R7120	\$ 641,252
Account Receivables:	
National School Lunch	4,496
Title I	105,654
Title II Part A	39,187
Title II Part D	97
Title V	3,007
Even Start	87,746
Less Prior Year Account Receivables:	
Title I	(88,893)
Title II Part A	(26,141)
Title V	(4,198)
Even Start	(78,931)
Less: State Revenues	(5,585)
Plus: Payments received through sources other than the Michigan Department of Education:	
Food Commodities	28,518
Receipts per Schedule of Expenditures of Federal Awards	<u><u>\$ 706,209</u></u>

HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133? No

Identification of major programs:	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	84.010	Title I
	10.555	National School Lunch
	10.553	National School Lunch Breakfast
	10.550	Food Distribution

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Houghton-Portage Township School District
Houghton, Michigan

In connection with our audit of the financial statements of Houghton-Portage Township School District, as of and for the year ended June 30, 2005, the following concerns regarding the accounting records, procedures, and the internal control structure came to our attention and are presented for your consideration.

Board Minutes Documentation

At the first meeting of the year, it was mentioned in the minutes that signature authorization was granted to four board officials. It is required that the names of authorized signers be included in the minutes.

When adopting or amending the budget, it is important to state the total revenues and expenditures approved and attach a signed copy of the budget to those minutes.

It was discovered through the course of the audit that a new Certificate of Deposit was opened for the Trust fund. It is required that all bank or depository accounts opened or closed are approved in the minutes.

Insured Deposits

We noted approximately fifty-two (41.58%) of the School's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to decrease the risk of loss to the District.

We would like to thank the administration staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 20, 2005